

VZCZCXRO3415
PP RUEHPA
DE RUEHAB #1036/01 2801027
ZNY CCCCC ZZH
P 071027Z OCT 07
FM AMEMBASSY ABIDJAN
TO RUEHC/SECSTATE WASHDC PRIORITY 3609
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHDS/AMEMBASSY ADDIS ABABA 0129
RUEPGDA/USEUCOM JIC VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 03 ABIDJAN 001036

SIPDIS

SIPDIS

STATE PASS TO USTR C. HAMILTON, JACKSON
TREASURY FOR D. PETERS
USAID FOR C. GARRETT, S. SWIFT, M LEMARGIE
ADDIS, PARIS, LONDON FOR WEST AFRICA WATCHERS
ACCRA FOR WARP P. RICHARDSON, MCCOWN
DAKAR FOR FAS, FCS

E.O. 12958: DECL: 10/02/2017

TAGS: EFIN IMF ECON PGOV PREL EMIN EAGR ENRG EPET

IBRD, IV

SUBJECT: IFIS, DONORS DISCUSS FISCAL GOVERNANCE AND
EVENTUAL HIPC; UNOCI DISAPPOINTMENT WITH ROLLOUT OF
AUDIENCES FORAINES

REF: A. ABIDJAN 765

1B. ABIDJAN 753

1C. ABIDJAN 1347 (2006)

Classified By: POL/ECON: ERV MASSINGA, reasons 1.4 (b,d)

11. (C) Summary. International Financial Institutions (IFIs) staff convened top bilateral donors September 28 to discuss their negotiations with the Government of Cote d'Ivoire (GOCI) on fiscal controls and next steps. Cote d'Ivoire is staying current with the July 2007 arrears financing package (reftel a), and has raised money to pay its 50 percent of outstanding arrears on the local bond market. The IFIs are imposing stiff fiscal control and transparency measures in the energy and cocoa sectors, and appear reasonably upbeat at the prospect these policies will succeed. If the GOCI remains current with its arrears clearance plan and the fiscal controls work as designed, Cote d'Ivoire could begin Highly Indebted Poor Country (HIPC) negotiations in earnest by mid-2008. The IFIs are pushing forward with these aggressive plans despite obvious disappointment among the international community at the failure to move forward on disarmament and the weak showing so far in the audiences foraines program to provide birth certificates to potentially millions of Ivorians. End Summary.

12. (C) The World Bank, African Development Bank (AfDB) and the IMF convened top bilateral donors on September 28 to provide a status report on efforts to create durable, transparent fiscal controls and next steps towards a Poverty Reduction and Growth Facility (PRGF) and eventual consideration of a HIPC debt reduction. Despite overall disappointment with the failure to move on disarmament and the feeble rollout of the audiences foraines process seen thus far (see para 9), IFI staff were relatively upbeat at the prospect of making enough strides in the coming year to allow for entering into serious HIPC negotiations by mid 2008.

13. (C) IFI Staff reviewed with satisfaction the successful financing of the July 2007 package that cleared World Bank and AfDB arrears and which paved the way for the IFI's reengagement with Cote d'Ivoire. In September 2007, Cote d'Ivoire launched a successful bond issuance for CFA 225 billion (USD 460 million) at 6 percent interest, of which CFA

120 billion will be used to repay the World Bank for its up-front loan to clear 50 percent of the over USD 400 million arrears as called for in the July agreement. Another CFA 80 billion will be used to repay the AfDB 33 percent of the country's arrears with that institution (again, according to the July package) and the rest to be used to finance urgently needed infrastructure improvements. During roundtable discussions, IFI staff noted that 80 percent of the bonds were sold within the region, a not-so-subtle point of pride at having convinced Ivorian authorities to avoid riskier and more expensive options such as the proposed summer 2007 JP Morgan deal (reftel a).

¶4. (SBU) The IFIs presented an aggressive Governance Support and Economic Relaunch (AGRE in French) program designed to produce substantially greater levels of transparency in government spending. The AGRE has successfully pushed the Ministry of Finance to return to regular budgeted expenditure mechanisms for at least 70% of national spending for the 2007 budget, an improvement over the past three years, in which the Ministry has largely abandoned its formerly good governance practices by financing spending through unbudgeted and opaque ad hoc "advances."

Energy
=====

¶5. (C) On the critical question of energy (which in 2006 topped cocoa and coffee as the country's top income generators, producing approximately USD 1.35 billion versus USD 1.1 billion), the IFIs have succeeded in finishing audits of the state-owned refinery (SIR) and the state petroleum company PETROCI. Both audits are being reviewed by IFI staff in Washington before being made public. The third energy audit, covering the electrical generation industry, should be

ABIDJAN 00001036 002 OF 003

done by the end of 2008. The petroleum and gas producing sector were subject of a number of recommendations to assure Cote d'Ivoire and the sub-region better supplies of gas-fueled electricity in the medium and long term, perhaps the most important of which is a suggestion to change the manner in which gas is priced. This is a an indirect critique of the current controversy involving the Ministry of Energy, PETROCI and U.S. firm Devon Energy, in which Devon's existing gas contract keeps the price of delivered gas at roughly 1/2 that of gas produced by competitors CNR (Canadian) and Foxtrot (a 80/20 percent consortium between French company Bouygue and PETROCI). PETROCI would like to purchase Devon's Ivorian production network, and Devon executives have told Emboff that PETROCI has attempted to pressure the Ministry of Energy into avoiding renegotiating Devon's gas production contract to allow higher gas prices (which would thus encourage new investment and production) in order to keep Devon's asking price down. Based on the couched language of the aide memoire distributed at the Sept 28 meeting and conversations with Devon executives, the IFIs have made known their reluctance to see a state-owned firm purchase major new assets while the country itself is the beneficiary of substantial debt reduction and international assistance.

¶6. (C) IFI staff have won Ivorian acceptance of the terms of the Extractive Industries Transparency Initiative. While joining the EITI was not a prerequisite for the July arrears clearance and IFI reengagement package, the IFIs and a number of bilateral donors (reftel b) put strong pressure on the GOI to join. The government reports it is in the midst of forming an EITI committee (with civil society participation) and writing its membership agreement. In addition to the EITI commitment, the IFIs have pushed the government to create a ministerial Oil Committee (composed of the Ministries of Finance (nominally independent, but leaning towards the President's FPI) and Energy (FPI)). The Committee will monitor oil's physical, revenue and tax flows, and forward reports to the Council of Ministers (presided

over by the Prime Minister and attended by all ministers) as an additional means of bringing transparency to the sector.

Cocoa

=====

¶7. (C) On the question of coffee and more importantly cocoa, the IFIs have put into place a system of strict supervision of the quasi-governmental cocoa control organizations (reftel c). The cocoa bodies will forward to the IFIs their receipts on a quarterly basis, and will review with IFIs plans for spending or investing those funds. Since 2001, the IFIs have estimated between USD 600 and USD 800 million in "parafiscal" taxes have been collected for the ostensible support of the industry and its smallholding farmer/producers. Much of that sum, according to the IFIs' aide memoire and other reports "cannot be satisfactorily accounted for." Bank staff told Emboff separately that the renewed attention to the scandal of the quasi-governmental "Fonds del Regulation and Control" purchase of a chocolate factory in Fulton, New York is representative of long-standing misfeasance in the sector (septel). In addition to strict review of cocoa receipts, the IFIs have won a modest reduction in parafiscal taxes (CFA 2.65 from CFA 36) and are pushing for even deeper cuts in the future. The EU representative at the briefing pressed the IFIs to demand the outright elimination of the taxes.

Next Step - HIPC in 2008?

=====

¶8. (C) If the AGRE, with the critical energy and cocoa control elements, is well managed, and Cote d'Ivoire stays current with its arrears clearance package, IFI staff envisions revising the 2002-era Interim Poverty Reduction Strategy Paper (I-PRSP) and completing a new PRSP as precursors to "moving forward" in mid -2008 with negotiations for a Highly Indebted Poor Country (HIPC) "decision point. Such a relatively aggressive timetable would enable the IFIs to decisively reduce Cote d'Ivoire heavy indebtedness (total indebtedness is 71 percent of GDP, and scheduled debt

ABIDJAN 00001036 003 OF 003

payments, principal and interest, are 3.9 percent in 2007).

Deputy SRSG Discusses SYSG's Consideration of a new SRSG, Initial Audiences Foraines Rollout

¶9. (C) Prior to the IFIs, briefing, Deputy SRSG (and UNDP Head) Georg Charpentier told Emboff that the United Nations Operation in Cote d'Ivoire (UNOCI) was disappointed and mildly surprised at the weak performance of the audiences foraines teams seen heretofore. He reported that the team in Ferkessedougou (Prime Minister Soro's hometown) and Gagnoa (President Gbagbo's hometown) had already come back to Abidjan, citing a lack of support, and after essentially token efforts in the field. UNOCI had expected these teams to stay in the field and be supplemented by ever-increasing numbers of other teams in other locations, all building to an effort perhaps able to address the potentially massive numbers to be processed. Initial results are not encouraging, but UNOCI will push all parties to move the process forward.

¶10. (C) Comment. Despite the disappointment related to DDR and the audiences foraines, the IFIs are moving with alacrity to fashion a system that can (hopefully) set the stage for economic growth and encouragement of new investment. The country's leadership is intensely and almost exclusively focused on the political crisis, and does not appear to be focusing on these negotiations, although the measures being adopted will gradually impinge on the opaque sources of funding upon which the President's faction has long relied. The international community, led by the IFIs, are reasonably optimistic that in the fiscal and economic realm, they will

be successful. The results of the upcoming sale of Devon Energy's Ivorian assets and the rollout of the 2007-2008 cocoa harvest will be key indicators of how the IFI's strategy is faring. End Comment.

NESBITT